

1997-98 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Committee on
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

➤ Appointments ... Appt

➤ **

➤ Clearinghouse Rules ... CRule

➤ **

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➤ Executive Sessions ... ES

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➤ Hearing Records ... HR

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➤ Miscellaneous ... Misc

➤ 97hrJC-Fi_Misc_pt113_LFB

➤ Record of Comm. Proceedings ... RCP

➤ **

Transportation

(LFB Budget Summary Document: Page 582)

For the Committee's May 22, 1997, Executive Session, budget issue papers have been prepared on the following portions of the budget of the Department of Transportation:

- Transportation Fund Condition -- Paper #810
- State Highway Program (excluding funding for state highway rehabilitation, major highway development and state highway maintenance) -- Papers #845 thru #852
- Motor Vehicles -- Papers #860 thru #870
- State Patrol -- Papers #880 thru #884
- Other Divisions -- Papers #890 and #891

Following the Committee's May 22, 1997, Executive Session, budget issue papers will be prepared on the remaining portions of the budget of the Department of Transportation:

- Transportation Finance
- Local Transportation Aid
- Local Transportation Projects
- State Highway Program (funding for state highway rehabilitation, major highway development and state highway maintenance)

<p>To: Joint Committee on Finance</p> <p>From: Bob Lang, Director Legislative Fiscal Bureau</p>

ISSUE**Transportation Fund Condition Statement (DOT -- Transportation Finance)**

[LFB Summary: Page 582, #1]

At the time the Governor submitted SB 77, the transportation fund had an opening balance projected at \$0 and an estimated closing balance of \$508,700. Since that time, the Department of Transportation has reestimated revenues and our office has reviewed those reestimates. As a result, the closing balance for 1997-99 has been reestimated at -\$9,989,100. The detail supporting that reestimate is displayed in the following fund condition statement.

	<u>1997-98</u>	<u>1998-99</u>
Unappropriated Balance, July 1	\$0	-\$2,294,500
Revenues		
Motor Vehicle Fuel Tax	\$717,658,900	\$736,358,900
Vehicle Registration Fees	293,703,100	295,918,500
Less Revenue Bond Debt Service	-74,079,300	-80,586,700
Driver's License Fees	25,272,400	28,171,100
Miscellaneous Motor Vehicle Fees	11,021,300	11,221,300
Aeronautical Taxes and Fees	7,897,600	7,720,600
Railroad Revenue	11,479,200	10,332,900
Motor Carrier Fees	3,200,000	3,300,000
Investment Earnings	7,194,300	9,514,000
Miscellaneous Revenue	<u>10,450,100</u>	<u>10,650,100</u>
Total Annual Revenues	\$1,013,797,600	\$1,032,600,700
Total Available	\$1,013,797,600	\$1,030,306,200
Appropriations and Reserves		
DOT Appropriations	\$986,290,900	\$1,006,462,400
Other Agency Appropriations	29,422,600	29,940,500
Less Estimated Lapses	-3,000,000	-3,000,000
Compensation and Other Reserves	<u>3,378,600</u>	<u>6,892,400</u>
Net Appropriations and Reserves	\$1,016,092,100	\$1,040,295,300
Unappropriated Balance, June 30	-\$2,294,500	-\$9,989,100

The closing balance presented above is \$10.5 million lower than the amount reported in the Legislative Fiscal Bureau's summary of the Governor's budget. The change in the balance is primarily due to lower estimated revenues.

Opening Balance

The opening balance of \$0 for 1997-98 is based on the assumption that any deficit in 1996-97 will be addressed at the June, 1997, meeting of the Joint Committee on Finance under s. 13.10 of the statutes. At the time of the Committee's December, 1996, s. 13.10 meeting, DOT had estimated the projected deficit at \$3.9 million.

Since that time, DOT has been monitoring the status of revenue collections and now estimates that the year-end deficit will be \$9.4 million. This reflects both the updated revenue estimates and reestimates of the amounts needed for flood damage aids (+\$400,000) and pay plan adjustments (-\$1,500,000).

In December, DOT recommended that, if a deficit did materialize, the SEG appropriation for the state highway rehabilitation program should be reduced by the amount of the shortfall. This would delay some projects scheduled to be let this June (FY 97) by one month, until July (FY 98). Depending on how reserves in the transportation fund for preliminary engineering for an East-West corridor project (\$3.8 million, scheduled to end on June 30, 1997) and the ongoing East-West freeway repaving project (\$1.0 million, scheduled to end on June 30, 1999, which the Committee specifically refused to release under an earlier s. 13.10 request) are treated, the amount of a reduction to the state highway rehabilitation appropriation could be less than the \$9.4 million deficit.

If the Committee takes no action under s. 13.10 regarding the 1996-97 deficit, but takes budgetary action to delete the \$1.0 million reserve, the opening balance for 1997-98 would be -\$4.6 million and the closing balance for 1998-99 would be -\$14.6 million.

Motor Vehicle Fuel Tax Revenues

Motor vehicle fuel tax collections comprise 71% of transportation fund revenues. Over the biennium, fuel tax revenues are estimated to be \$15.4 million lower than the amounts originally included in the bill. When the bill was submitted, the motor fuel tax rate was 23.7 cents per gallon. The \$15.4 million revenue shortfall is due to the actual tax rate, effective April 1, 1997, and the reestimated rates, effective in 1998 and 1999, falling below the rates originally estimated:

<u>Tax Rate as of April 1</u>	<u>Original Estimate</u>	<u>Revised Estimate</u>	<u>Difference</u>
1997	24.1¢	23.8¢ (Actual)	-0.3¢
1998	24.5	24.0	-0.5
1999	24.7	24.2	-0.5

The revised rates are below the original rates because fuel consumption, which is one of two factors used in the tax rate indexing formula, was underestimated for 1996. Under the original estimate, the consumption factor was believed to have little effect on the inflation factor, and a tax rate increase of 0.4 cents per gallon was estimated. When actual 1996 consumption was determined, the consumption and inflation factors almost totally offset each other, and a tax rate increase of only 0.1 cents per gallon occurred on April 1, 1997. As a result, the 1997 tax rate was overestimated by 0.3 cents per gallon.

Due to indexing, higher fuel consumption would be expected to offset the effect of tax rates that are lower than originally estimated. However, that effect did not occur relative to the revised estimates because the original 1996 consumption estimate did not include exempt gallons for which tax refunds are claimed. The consumption factor measures those gallons, as well as taxable gallons. Prior to the 1994 change in the administration of the motor vehicle fuel tax, many of those gallons were not included in the consumption measure. Under the current administrative structure, the motor fuel supplier pays the tax on almost all motor fuel leaving the terminal and the tax is "passed on" to the purchaser. If the purchase is for an exempt use, the consumer may file a claim for a tax refund. Prior to 1994, many of those gallons were exempt at the point of purchase, so claims for refunds were not necessary. Since 1993, the number of gallons subject to tax refunds has increased noticeably.

<u>Year</u>	<u>Gallons Subject to Tax Refund, In Millions</u>
1993	16.6
1994	49.1
1995	64.4
1996	66.7

DOT indicates that the underestimate of gallons subject to tax refund was largely caused by a lack of data on the number of gallons subject to refund under the new tax administration procedures. There was only one complete intervening year (1995) between the change in motor fuel tax administration and the preparation of the budget. Also, the significance of the underestimate was not apparent until the factors for the April 1, 1997, indexing were known.

Previous estimates of taxable gallons appeared reasonable, and the revised estimates of taxable gallons are comparable to those estimates used at the time the budget was prepared.

**Taxable Gallons of Motor Fuel
In Millions of Gallons**

<u>Year</u>	<u>Original Estimate</u>	<u>Revised Estimate</u>	<u>Difference</u>
1997	2,961.5	2,975.1	13.6
1998	3,015.9	3,038.1	22.2
1999	3,059.2	3,080.3	21.1

For the three years, taxable gallons are estimated to increase by 1.9%, 2.1% and 1.4%, respectively. Since 1990, annual percentage increases have ranged from 0.3% in 1991 to 3.5% in 1994, the year that tax administration procedures were changed. The number of taxable gallons increased by 2.5% in 1995 and 2.6% in 1996. The rate of increase is projected to slow over the next three years due to increased vehicle fuel efficiency and moderation in the rate of growth in vehicle miles travelled.

Vehicle Registration Fees

The shortfall in estimated motor fuel tax revenue is partially offset by additional estimated revenues from other sources. The largest positive adjustment to revenues is for net vehicle registration fees, which are estimated to be \$4.7 million higher than when the budget was submitted. Gross vehicle registration fees are estimated to be \$3.1 million higher than originally estimated, due to more recent economic information. Debt service on transportation revenue bonds, which is reflected as a reduction to registration fees, is expected to be \$1.6 million lower than originally estimated. The reduction is due to interest income on registration fees held by the trustee. Vehicle registration fees are deposited initially with a trustee because those revenues are pledged for the repayment of principal and interest on transportation revenue bonds. After those repayments are made, the remaining revenues are transferred to the transportation fund. The interest income on those revenues is reflected as a reduction to debt service, rather than investment earnings. Other adjustments were made to the debt service estimate for lower interest rates and for an additional expense related to DOT's commercial paper program.

Other Revenues

Less significant adjustments were made to the other revenue estimates. A number of minor adjustments to the policy initiatives proposed under the driver's license program resulted in a \$28,000 reduction in estimated revenues. More information on current year collections is the basis for changes in estimated aeronautics fees (-\$132,100) and railroad revenues (\$357,800). Finally, investment earnings are \$872,000 lower than previously estimated. That reduction is due primarily to changes in the way that DOT's commercial paper program will be structured. Borrowed proceeds generate some of the transportation fund's investment earnings.

Appropriations

Relative to earlier estimates, appropriations to other agencies are forecast to be lower by \$342,400 in 1997-98 and \$456,800 in 1998-99. This is the result of lower estimated terminal tax payments and transfers to the conservation fund for motor vehicle fuel taxes paid for motorboat, snowmobile and all-terrain vehicle use.

Conclusion

As a result of the preceding revisions, the original estimates of transportation fund revenues are reduced by \$3.0 million in 1997-98 and \$8.3 million in 1998-99. The revised estimates of transportation fund revenues equal \$1,013.8 million in 1997-98 and \$1,032.6 million in 1998-99. Reductions totalling \$0.8 million to sum sufficient appropriations result in total estimated appropriations and reserves of \$1,016.1 million in 1997-98 and \$1,040.3 million in 1998-99. Given the estimated opening balance of \$0, combining the revised estimates of revenues and appropriations produces June 30 closing balances estimated at -\$2.3 million in 1997-98 and -\$10.0 million in 1998-99.

Prepared by: Rick Olin